

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: GRACE SEAMAN

DATE: AUGUST 29, 2014

RE: 2014 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT
AND RECOMMENDATIONS; CASE NO. GNR-T-14-06.

BACKGROUND

The Idaho Universal Service Fund (USF) rules were adopted under the general legal authority of the Telecommunications Act of 1988, Chapter 6, Title 62, *Idaho Code*, and the specific authority of § 62-610, *Idaho Code*. The Commission established a universal service fund for the purpose of maintaining the universal availability of local exchange service at reasonable rates and to promote the availability of message telecommunications service (MTS) at reasonably comparable rates throughout the state of Idaho. *Idaho Code* § 62-610(I). The USF is funded through a statewide end-user surcharge on local exchange services and intrastate MTS and Wide Area Telephone Service (WATS) type services. The USF Administrator submits an Annual Report to the Commission detailing the program activities of the previous year and recommending surcharge rates to meet the next year's funding requirements. The Commission issues an Order in response to the Administrator's report, establishing statewide end-user surcharges to be in effect for the next twelve months beginning October 1.

THE 2013 ANNUAL REPORT

On July 15, 2014, the Administrator of the Idaho USF Alyson Anderson, filed her Annual Report to the Commission for the period of July 1, 2013 through June 30, 2014, and included a proposed USF 2014-2015 Administrative Budget.

The current USF monthly surcharge rates are \$.16 per residential line, \$.25 per business line, and \$.006 per intrastate MTS/WTS billed minute. *See* Order No. 32883. Surcharge

revenue for the year totaled \$1,946,672. Local exchange services contributed \$1,082,264 (56%), and \$864,408 (44%) was contributed by MTS/WATS services. These amounts reflect the 2013 increase in surcharge rates. Surcharge revenue from local exchange services increased by approximately \$64,000 and MTS/WATS surcharge revenue increased by approximately \$199,400. The Administrative expenses for the year were \$15,325 (including Administrator's salary, expenses, and bank fees).

Currently, eight qualifying incumbent local exchange carriers (ILECs) receive annual payments from the fund, and those payments remain unchanged at \$1,698,610. The ending cash balance, after applying bank charges, and administrative expenses was \$239,485. If no changes are made, the annual disbursements to the ILECs are expected to remain at \$1,698,610 for the next fiscal year (July 1, 2014 through June 30, 2015).

2014-2015 Administrative Budget

Ms. Anderson proposes an annual administrative budget of \$24,000. This amount includes the Administrator's salary, expenses, bank fees, and a triennial audit.

Local Residential and Business Service

Because the USF surcharge attaches to the residential and business lines, and long-distance service minutes, of wireline companies, the Administrator annually obtains reports from those companies. As of May 1, 2014, companies reported a monthly inventory of 202,341 residential lines and 236,547 business lines, for a total of 438,888 lines. This is a net decrease in lines of approximately 21,308 (5%) with residential lines decreasing by 12% and business lines increasing by 2%.

The newly calculated statewide weighted average rates for one-party single line residential and business service and the corresponding threshold average rates are:

| | 2013 Statewide Weighted Average Rate | 2014 Statewide Weighted Average Rate | 125% Statewide Weighted Average Rate - 2013 | 125% Statewide Weighted Average Rate - 2013 |
|-----------------------------|---|---|--|--|
| Residential Services | \$21.73 | \$21.53 | \$27.16 | \$26.92 |
| Business Services | \$33.79 | \$33.70 | \$42.23 | \$42.13 |

Switched Access Service

Long distance service providers reported intrastate MTS/WATS billed minutes of 172,567,590 compared to the 2013 reported minutes of 197,465,217, a 13% decrease. The statewide average switched access rate was \$0.037, a decrease from last year's rate of \$0.047 resulting from the Federal Communications Commission's (FCC) *USF/ICC Transformation Order*, released on November 18, 2011. With this Order, the FCC capped the intercarrier compensation (ICC) rates and provided a transition schedule of annual rate reductions that ends in 2019.

Funding Adjustments Review—Rule 106

The Administrator also reviews the residential, business, and switched access rates of the recipient ILEC companies to determine eligibility to receive USF funding. A company's average one-party, single-line rate must equal or exceed the 125% statewide weighted average line rate and the average rates per minute for MTS/WATS access rate must exceed 100% of the statewide weighted average access rate. IDAPA 31.46.01.106. If the difference in the company's current average rate and the statewide average threshold rate is greater than three percent (3%), and the difference in the annual revenue associated with the company's current rate and the revenue associated with the statewide average threshold rates is over \$6,000, the company may need to revise rates to meet or exceed the statewide threshold rates. The Commission may also calculate the weighted statewide average rates by using the residence and business basic local exchange rates in effect on July 1, 2005 to determine the eligibility of ETCs for distributions from the USF. *See* Rule 106.04, and *Idaho Code* § 62-605(e).

ADMINISTRATOR'S OPTIONS

The Administrator reports that over the last several years, both local access lines and intrastate MTS/WATS have steadily declined. As a result, it is difficult to estimate the fund balance for the next fiscal year. Ms. Anderson further states that, "with the increased popularity of wireless/cellular services and VoIP services, it would stand to reason that the decline in both local access lines and intrastate toll minutes will continue." To more accurately determine the results of the funding options, Ms. Anderson adjusted the current inventories by the average percentage decline from the last five years (residential lines reduced 11%, business lines reduced

1%, and MTS/WATS billed minutes reduced 10%) to present the four funding options as described below.

Option 1: Status Quo – Ms. Anderson reports that if current surcharge levels are maintained and no additional USF funding is authorized, the funding will decrease by approximately \$257,560. The 2014-2015 authorized disbursements will be \$1,698,610 and the fund balance will be an estimated \$497,099 on June 30, 2015. Surcharge revenue contribution would be approximately 53% from MTS/WATS services and 47% from local exchange services.

Option 2: Adjust Funding to Meet Statewide Averages per Rule 106 and Maintain Surcharge Rates – Idaho USF Rule 106.02 outlines the requirement to continue receiving USF funding after the first year of eligibility. The following applies Rule 106 to each company currently receiving USF funding:

- ATC Communications (ATC) — increase local residential and decrease toll switched access rates. ATC's annual USF funding would be reduced by \$2,801.
- Cambridge Telephone Company (Cambridge) — increase local residential rates. Cambridge's annual USF funding would be reduced by \$15,469.
- Direct Communications Rockland (Direct) — increase local residential rates. Direct's annual USF funding would be reduced by \$11,564.
- Fremont Telecom (Fremont) — increase local residential and decrease toll switched access rates. Fremont's annual USF funding would be increased by \$148,070.
- Inland Telephone Company (Inland) — decrease toll switched access rates. Inland's annual funding would be increased by \$39,878.
- Midvale Telephone Company (Midvale) — increase local residential and decrease toll switched access rates. Midvale's annual USF funding would be reduced by \$1,170.
- Rural Telephone Company (Rural) — increase local residential and decrease toll switched access rates. Rural's annual USF funding would be reduced by \$7,839.
- Silver Star Telecom — no adjustments are necessary.

Under this proposal, Ms. Anderson projects the annual USF disbursements would increase by \$108,455 from \$1,698,610 to \$1,867,715 and the fund balance on June 30, 2015 would be approximately \$347,994. With this option, MTS/WATS services would contribute 47% of the total surcharge revenue and the local exchange services contribution would be 53%.

Option 3: Maintain Funding Levels and Decrease Surcharge Rates – In this scenario, Ms. Anderson considers maintaining the USF disbursement levels and decreasing the surcharge rates to \$.15 per residential line, \$.23 per business line, and maintaining the rate of \$.006 per intrastate MTS/WATS billed minute. The funding would increase by approximately \$179,747 and the end-of-year balance on June 30, 2015 would be approximately \$218,076. MTS/WATS service would contribute 49% of the surcharge revenue and local exchange services would contribute 51%.

Option 4: Adjust Funding to Meet Statewide Averages Per Rule 106 and Decrease Surcharge Rates – In this discussion, Ms. Anderson looks at decreasing the surcharge rates to \$.15 per residential line, \$.23 per business line, and maintaining the rate of \$.006 per intrastate MTS/WATS billed minutes. This option also adjusts the USF disbursements per Rule 106. The MTS/WATS service would contribute 51% and local exchange services would contribute 49%. The funding would increase by approximately \$30,642 and the end-of-year balance would be approximately \$68,971 on June 30, 2015.

ADMINISTRATOR'S RECOMMENDATION

The Administrator believes the local access lines and long distance minutes will continue to decline and the shift away from stand alone residential service to bundled packages will continue. This affects the statewide average rate calculations, as well as the application of Rule 106 to the companies who receive USF funding. In light of the FCC Orders and industry changes, it is difficult to evaluate the USF funding as it relates to Rule 106. Therefore, the Administrator recommends that the Commission adopt Option 1; maintain the company disbursements at the current level, and maintain the surcharge rates at \$.16 per residential line, \$.25 per business line, and \$.006 per intrastate MTS/WATS billed minute. Option 1 would approximate a 50-50 contribution of surcharge revenues between local exchange and MTS/WATS services. The fund balance on June 30, 2015 would be approximately \$497,099; an amount that would allow the fund to meet all obligations as well as provide a reserve balance.

STAFF ANALYSIS AND RECOMMENDATION

Staff has reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report. Staff also notes the impact to Rule 106 by the Federal Communication Commission's (FCC) *USF/ICC Transformation Order*, FCC 11-161,

released on November 18, 2011, and the subsequent FCC 14-54, *Seventh Order on Reconsideration*, released on June 10, 2014. The first FCC Order established a schedule to reduce intrastate terminating access rates, including transport and reciprocal compensation, to bill-and-keep by July 1, 2019. The second FCC Order established a four-year transition of voice services to a rate floor of \$20.46 for carriers that receive federal high cost support. These Orders make it impractical for the Commission to apply Rule 106 to determine eligibility for the eight companies that receive state USF disbursements. All eight USF-funded companies have residential rates of \$25.76.¹ If Rule 106 is strictly applied, six of the eight companies would be required to increase the residential local exchange rate from the current rate of \$25.76 to \$26.92²—a rate that is 31.5% higher than the FCC’s rate floor for federal USF eligibility. Finally, because the funding elements are impermanent and difficult to predict, Staff believes a reduction in the surcharge rates as described in Options 3 and 4 is imprudent at this time. Staff, therefore, agrees with Ms. Anderson’s recommendation to the Commission to adopt Option 1; maintain current funding levels to the eight companies receiving disbursements and maintain the current surcharge rates established by the Commission in Order No. 32883. This option will provide an adequate funding level for the Administrator.

COMMISSION DECISION

Does the Commission wish to approve the Administrator’s USF 2014-2015 budget?

Does the Commission wish to adopt the Administrator and Staff’s recommended funding Option 1?

Does the Commission wish to adopt a different funding option?


Grace Seaman

iudmemos/2014 usf annual report

¹ On September 2, 2009, Commission Order No. 30894 was issued notifying the USF recipient companies that residential rates must be increased to the statewide threshold rate of \$25.76 to continue to receive funding. All eight companies complied by increasing the residential rates.

² For the first time since 2009, the average residential rate decreased from the previous year. Establishment of the average statewide rate is largely impacted by the rates reported by the two deregulated companies that have the greatest market share. One of these companies reported average residential line rate that was almost a dollar less per line than the previous year.